

USAID/India
Energy Conservation and Commercialization (ECO)
Activity Summary

Background: The primary focus of the ECO activity is to reduce GHG emissions and improve end-use efficiency through commercialization of energy efficiency within the context of India's power sector. As per the design, ECO will enhance the efforts of the existing USAID activities to strengthen India's power sector reforms and promote energy efficiency by developing market-oriented approaches for stimulating investments in improving efficiency. ECO will promote best energy practices at local and regional levels.

Opportunities: ECO has identified the following three major, mutually reinforcing areas of opportunity for reducing GHG emissions through commercialization of energy efficiency:

1) ***National-Level Energy Efficiency Agency:*** At the central policy level, a new apex agency for energy efficiency, the Bureau of Energy Efficiency (BEE) is being planned under the Ministry of Power (MoP). The creation of BEE will provide USAID/New Delhi a unique opportunity to assist the GOI in developing policies and programs to promote energy efficiency through market-oriented approaches, thereby minimizing government administered costs and market distortions e.g. tariffs and subsidies.

2) ***State-Level Electricity Regulatory Commissions:*** At the state policy level, reforms will provide an opportunity to incorporate market-based incentives into newly restructured electric utilities and in the policies of the independent commissions that will regulate them. Creation of electricity regulatory commissions throughout the country presents USAID with the opportunity to support and train a new cadre of regulators in market oriented electricity regulation and incorporation of energy efficiency policies. These regulatory commissions will be crucial steps in helping to assure a "fair playing field" and commercial rule of law for U.S. and other private investments in the Indian power sector.

3) ***Energy Efficiency Market Development:*** Progress in central and state reform initiatives cited above will enhance the emergence of nascent markets in energy efficiency products and services. However, the new energy efficiency market is confronted with a variety of constraints such as unavailability of long-term capital and high interest rates on short-term capital, absence of trade associations for Energy Service Companies (ESCOs) or energy auditors, and lack of standards for quality and competence. A combination of technical assistance (TA) and training will be used to address the market constraints combined with the selective use of financial incentives to support energy efficiency business demonstrations. This will reduce the risk many financial institutions associate with energy efficiency projects to a point that the market forces would propel further investment with a limited TA.

Activity Components: ECO will have two major components "Energy Efficiency Market Development and Financing" (component 1) and "Energy Efficiency Policy and Institutional Reforms" (component 2) and to respond to the opportunities cited above.

Component 1 will cover market development related issues and component 2 will cover policy reform issues at the central and state levels.

Partners: The ECO design was based on extensive inputs from members of Ministry of Power and Ministry of Petroleum and Natural Gas; trade associations such as Associated Chambers of Commerce and Industries (ASSOCHAM) and Confederation of Indian Industries (CII); financial institutions such as Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and Infrastructure Leasing and Financial Services (IL&FS); Energy Service Companies (ESCOs), equipment manufacturers, State Electricity Boards (SEBs) and USAID staff and contractors.

Budget: ECO is envisaged as five-year activity from the date of signing of bilateral agreement. The total cost of the activity over five year period will be \$33,375,000; of which \$14,125,000 will be spent on TA, \$6,750,000 on training and \$10,000,000 for financing market development and other related activities. The remaining \$2,500,000 will be for audits, evaluation, contingency and project administration costs. Host Country Contribution (HCC) of approximately \$ 8,375,000 currently budgeted at 25 percent of the total activity cost will be met by cash and in kind contribution from partners.

ENERGY CONSERVATION AND COMMERCIALIZATION (ECO) PROJECT

Project Design completed: May 1998

Economic sanctions imposed on India: May 1998

Suspensions lifted on energy programs
aimed at GHG reduction (STATE 60045): April 5, 1999

(Since ECO activity aims to reduce GHG emissions, it falls under the "notwithstanding" authority under section 540(b) of the 1999 FAA. Pursuant to STATE 60045, USAID/India is allowed to obligate funds for such activities)

CN Hold (CN # 314): May 27, 1999

Senate Foreign Relations Committee Briefing: June 11, 1999

Environmental Clearance: June 27, 1999

Congressional Holds Released: July 29, 1999

Mission Authorization: August 16, 1999

Project Agreement sent to Ministry of Finance: August 30, 1999

Project approval from Ministry of Finance: Expected by January 20, 2000